



From the Desk
of the
Chief Economist

BANK ISLAM

BNM KEEPS OPR UNCHANGED AT 1.75%

10 SEPTEMBER 2020

ECONOMIC RESEARCH

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- ✓ The Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 1.75% (Consensus: 1.75%, Bank Islam: 1.50%) during the Monetary Policy Committee (MPC) meeting on 10 September after slashing at its last four meetings.
- ✓ The global economy has improved ascribed to ease in preventive measures across the map, coupled with accommodative monetary policy stance. This allows the manufacturers to resume its operation while the trade activities have recovered gradually. Nevertheless, services sector has moderated while downside risks remained at its elevated level amid concern over resurgence of Covid-19.
- ✓ On the local front, Malaysian economy continued to gain its momentum as household spending and trade activities have picked up supported by lower interest rate and fiscal packages prescribed by the government.
- ✓ BNM is of the view that the recovery would continue into 2021 but noted that risks remain. Having said that, the pace of recovery would be uneven across sectors with output of some industries remain below pre-Covid-19 levels.
- ✓ On the other hand, the headline inflation rate would likely to record negative print in 2020 weighed by lower crude oil prices before increasing in 2021 subject to global oil outlook.
- ✓ The final MPC meeting will be held on 3 November 2020.

Policy rates	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sept-20*
Advanced countries												
US (Fed Fund Rate)	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Latin America												
Mexico (ON Rate)	7.75	7.50	7.25	7.25	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.50
Brazil (Selic Rate)	5.00	5.00	4.50	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	68.00	63.00	55.00	50.00	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe												
Russia (Key Rate)	6.50	6.50	6.25	6.25	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25
Ukraine (Discount Rate)	15.50	15.50	13.50	11.00	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	14.00	14.00	12.00	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25	8.25
Asia												
China (1Y Loan Prime Rate)	4.20	4.15	4.15	4.15	4.05	4.05	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Thailand (1D Repo Rate)	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	4.00	4.00	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25
Australia (Cash Rate)	0.75	0.75	0.75	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25
New Zealand (Cash Rate)	1.00	1.00	1.00	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75

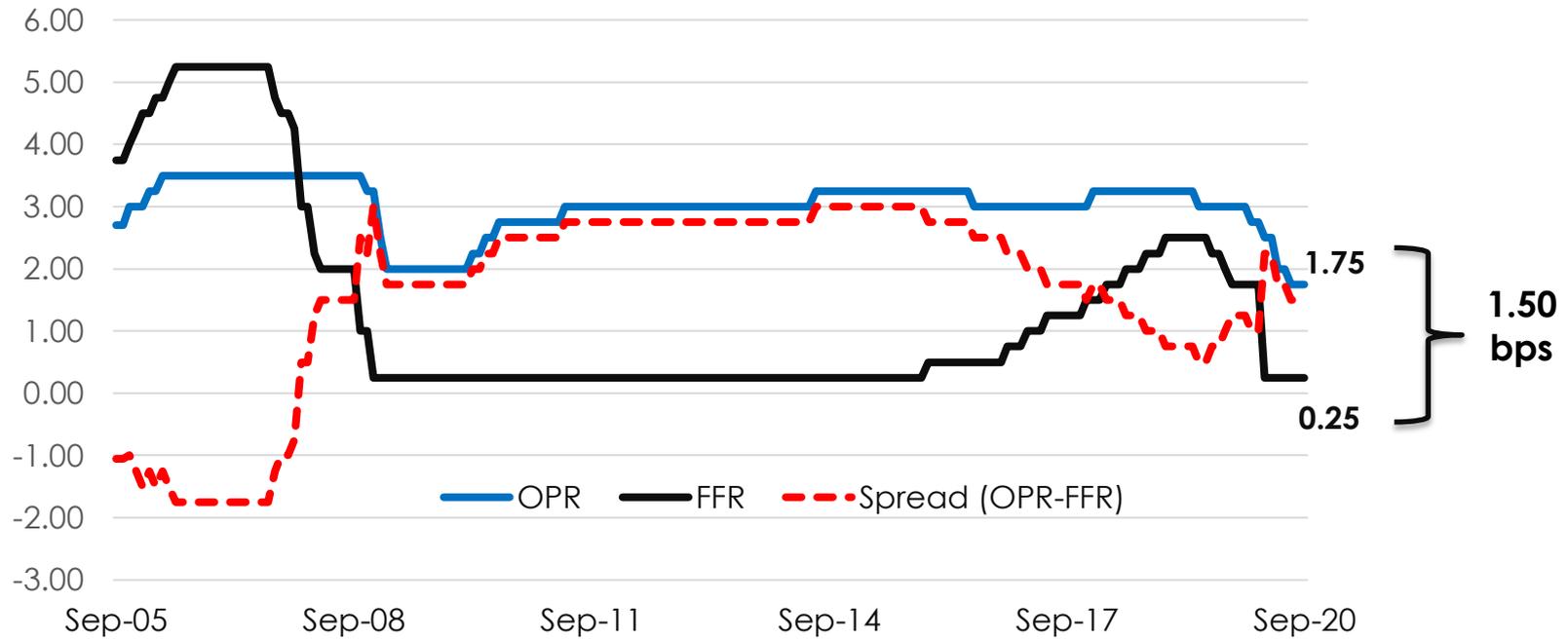


***As at 10 September 2020**

Source: Bloomberg

Covid-19 pandemic has caused tremendous human and economic hardship globally. Apart from that, consumer price inflation remain subdued in light of weaker demand and significantly lower oil prices. As such, monetary measures to support the economy are still relevant depending on its relevancy and needs.

OVERNIGHT POLICY RATE (OPR) VS. FEDERAL FUND RATE (FFR)



Source: Bloomberg

- ✓ As of today, Malaysia's OPR spread against the FFR stood at 1.50 bps (1.75% minus 0.25%).
- ✓ Despite keeping the OPR unchanged, the BNM still has some policy space to ease the monetary policy amid muted inflationary pressure in 2020 and in the event that recurrence of infections threatens the recent recovery in activity.

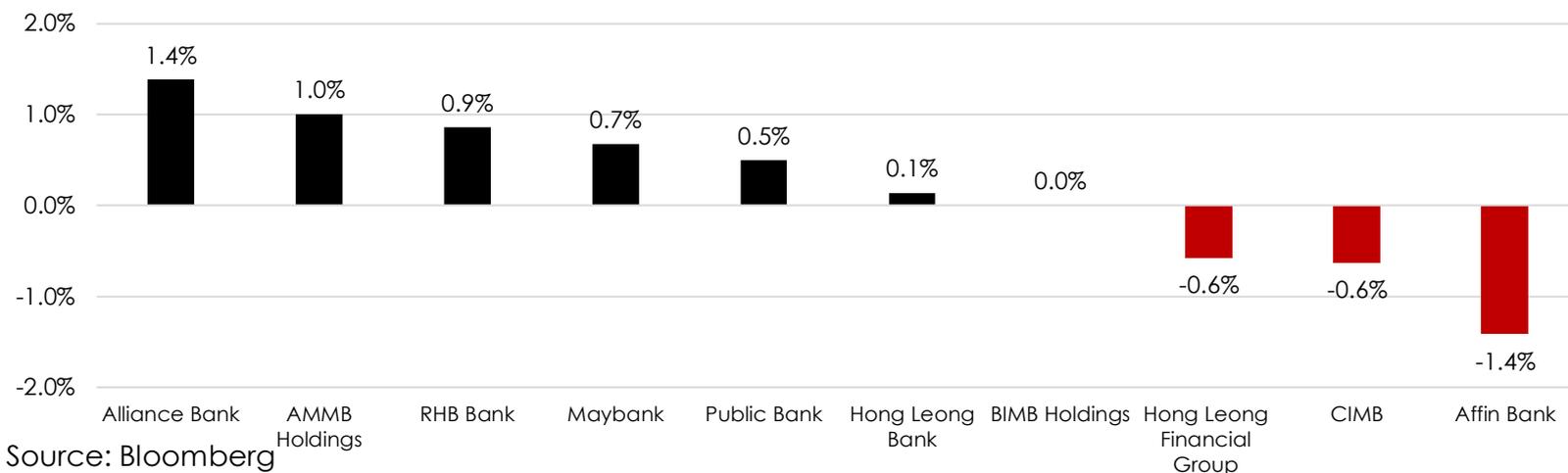
- ✓ **Economic recovery to continue in the coming quarters** - The BNM seems to be upbeat about the economic outlook for the remainder of 2020 and going into 2021. Signs of economic recovery have been encouraging, suggesting the effectiveness of the policy transmission to the economy. The fiscal policy has also been forthcoming to cushion the economic impact from the Covid-19 spread.
- ✓ **Inflation to be a non-event** - Despite that, the BNM is putting a caveat of its policy action: the pandemic. Therefore, they remain open for a possible cut in the OPR if the situation necessitates for such policy respond. This is given the fact that inflation is expected to be a non-event owing to the supply imbalances in the global oil market. Perhaps, the OPR could stay at 1.75% throughout the year.
- ✓ **How did the local bourse react?** – An unchanged OPR is a positive for the FBM KLCI by virtue of the banking sector being an index heavyweight, contributing more than 20.0% of the index's total market capitalisation. However, the FBM KLCI closed 0.9% lower at 1,483.9 points today as overall sentiment was dragged by the sell-off in rubber glove stocks. The maintained OPR gives a buffer to the net interest margin compression in the banking sector because a downward revision in OPR will lead to a downward revision in financing rates especially those with variable features. All sectors were swimming in the red after BNM maintained the OPR. Nevertheless, the Bursa Malaysia Finance index which comprises of banks was the smallest decliner, only dropping by less than 0.5% for the day. Among banking stocks, Alliance Bank was the biggest gainer, advancing 1.4% while Affin Bank led laggards with a 1.4% decline.

Sector Weightings in the FBM KLCI

Sector	Market Cap (RM Billion) as at 9 September 2020	Percentage
Banks	244.6	25.2%
Consumer Product and Services	96.6	10.0%
Energy	20.5	2.1%
Healthcare and Rubber Gloves	149.6	15.4%
Industrial product and Services	63.3	6.5%
Materials	21.0	2.2%
Plantation	113.5	11.7%
Real Estate	14.3	1.5%
Telecommunication	115.2	11.9%
Transportation	33.6	3.5%
Utilities	96.6	10.0%
Total Market Cap (RM Billion)	968.9	100.0%

Source: Bloomberg

Performance of Banking Stocks on 10 September 2020



Source: Bloomberg

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

Assuring Trust. Delivering Value

- ✓ At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75%.
- ✓ The global economy continues to improve, with the easing of containment measures across more economies and strong policy support. The re-opening of production facilities has led to a resumption of manufacturing and trade activity. However, the recovery in the services sector has been slower. Financial conditions have improved, although risk aversion remains elevated. The outlook is still subject to downside risks and uncertainty, primarily due to the risk of a resurgence of the pandemic and weaker labour market conditions.
- ✓ For Malaysia, economic activity continues to recover from the trough in April this year. Latest high frequency indicators show that labour market conditions, household spending and trade activity have continued to improve. Also supporting the economic recovery are the fiscal stimulus packages, alongside monetary and financial measures. Looking ahead, the improvement is expected to continue into 2021, supported by the recovery in external demand and expansion in private sector expenditure. However, the pace of recovery will be uneven across sectors, with economic activity in some industries remaining below pre-pandemic levels, and a slower improvement in the labour market. This outlook is still subject to downside risks, particularly from ongoing uncertainties surrounding the course of the pandemic domestically and globally.
- ✓ Inflationary pressures are expected to remain muted in 2020. Headline inflation is likely to average negative in 2020 given the substantially lower global oil prices, and average higher in 2021, within the earlier projected ranges. The outlook, however, will continue to be significantly affected by global oil and commodity prices. Underlying inflation is expected to be subdued amid spare capacity in the economy.
- ✓ The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy. Given the outlook for growth and inflation, the MPC considers the stance of monetary policy to be appropriate and accommodative. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.